

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-ISE-2016-17 on the subject line.

Paper Comments

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-ISE-2016-17. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from

submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2016-17, and should be submitted on or before August 11, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Robert W. Errett,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78339; File No. SR-BatsEDGX-2016-29]

Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Related to Functionality Offered by the Exchange's Options Platform To: Modify Various Rules To Eliminate the Display-Price Sliding Option; Modify Various Rules To Eliminate Price Improving Orders; and Adopt the Step Up Mechanism

July 15, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 11, 2016, Bats EDGX Exchange, Inc. (the "Exchange" or "EDGX") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6)(iii) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal related to functionality offered by the Exchange's options platform ("EDGX Options") to: (i) Modify various rules to eliminate the display-price sliding option; (ii) modify various rules to

eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below.

The text of the proposed rule change is available at the Exchange's Web site at www.batstrading.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is filing this proposal related to functionality offered by EDGX Options to: (i) Modify various rules to eliminate the display-price sliding option; (ii) modify various rules to eliminate Price Improving Orders, as defined below; and (iii) adopt the Step Up Mechanism, as described below.

Elimination of the Display-Price Sliding Option

The Exchange currently offers various forms of sliding which, in all cases, result in the re-pricing of an order to, or ranking and/or display of an order at, a price other than an order's limit price in order to comply with applicable securities laws and/or Exchange rules. Specifically, the Exchange offers: (i) The display-price sliding process, pursuant to Rule 21.1(h); and (ii) the Price Adjust process, pursuant to Rule 21.1(i). Under the display-price sliding process an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange will be ranked at the locking price in the EDGX Options Book and displayed by the System⁵ at one minimum price variation below the current National Best Offer ("NBO")⁶ (for bids) or one

¹⁰ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6)(iii).

⁵ See Exchange Rule 16.1(a)(59) (defining the term System as the automated trading system used by EDGX Options for the trading of options contracts).

⁶ See Exchange Rule 16.1(a)(29) (defining the terms "NBB", "NBO", and "NBBO").

minimum price variation above the current National Best Bid (“NBB”) ⁷ (for offers). In contrast, under the Price Adjust process, an order that, at the time of entry, would lock or cross a Protected Quotation of another options exchange or the Exchange will be ranked and displayed by the System at one minimum price variation below the current NBO (for bids) or to one minimum price variation above the current NBB (for offers). Thus, the two primary differences between the display-price sliding process and the Price Adjust process are: (i) The ranking of an order at a more aggressive price than the price at which it is displayed (the display-price sliding process) versus ranking and displaying an order at the same price (the Price Adjust process); and (ii) sliding of an order that would lock or cross a Protected Quotation of another options exchange but not an order displayed by the Exchange (the display-price sliding process) or the sliding of an order that would lock or cross a Protected Quotation of another options exchange or the exchange (the Price Adjust process).

Due to the general similarities between the two price sliding processes and to simplify the functionality offered by the Exchange, the Exchange proposes to eliminate the display-price sliding process for EDGX Options. In order to effect this change the Exchange proposes to delete Rule 21.1(h) in its entirety and to remove references to display-price sliding in paragraphs (d)(7) and (d)(8) of Rule 21.1, paragraph (f) of Rule 21.6 and paragraph (a)(1)(B) of Rule 21.9. The Exchange also proposes to delete Rule 21.1(j), which describes the relative handling of orders subject to the display-price sliding process and the Price Adjust process, as such provision is no longer necessary with the elimination of the display-price sliding process. The Exchange also proposes to capitalize the reference to the Price Adjust process in Rule 21.9(a)(1)(B) to achieve consistency with the rest of the Exchange’s rules.

In addition to the changes described above, the Exchange proposes to make the Price Adjust process the default price sliding functionality. Specifically, the Exchange proposes to modify Rule 21.1(d)(7), which currently designates the display-price sliding process as the default, to instead state that the Price Adjust process is the default, unless otherwise specified by a User.

Elimination of Price Improving Orders

Price Improving Orders are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security.⁸ Price Improving Orders may be entered in increments as small as (1) one cent. Price Improving Orders are displayed at the minimum price variation in the security and shall be rounded up for sell orders and rounded down for buy orders. Unless a User⁹ has entered instructions not to do so, Price Improving Orders are currently subject to the display-price sliding process, as described above.

The Exchange proposes to eliminate Price Improving Orders on EDGX Options in order to simplify System functionality. To effect this change, the Exchange proposes to delete paragraph (d)(6) from Rule 21.1(d) in its entirety. The Exchange also proposes to remove a reference to Price Improving Orders contained in Rule 18.4(f)(2).

Step Up Mechanism

The Exchange proposes to adopt a rule that governs the operation of its new Step Up Mechanism (“SUM” or the “SUM process”). As proposed, SUM is a feature within the Exchange’s System that would provide automated order handling in designated classes for qualifying orders that are not automatically executed by the System. Regarding SUM eligibility, the Exchange shall designate eligible order size, eligible order type, eligible order origin code (e.g., Priority Customer Orders, non-Market Maker non-Priority Customer orders, and Market Maker orders),¹⁰ and classes in which SUM shall be activated. SUM shall automatically process upon receipt of: (i) An eligible order that is marketable against the Exchange’s disseminated quotation while that quotation is not the national best bid or offer (“NBBO”); or (ii) an eligible order that would improve the Exchange’s disseminated quotation and that is marketable against quotations disseminated by other exchanges that are participants in the Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”).

For order handling and responses regarding SUM, orders that are received by SUM pursuant to the paragraph

above shall be electronically exposed at the NBBO immediately upon receipt. The exposure shall be for a period of time determined by the Exchange on a class-by-class basis, which period of time shall not exceed one second. All Users will be permitted to submit responses to the exposure message during the exposure period. Responses (i) must be limited to the size of the order being exposed; (ii) may be modified, cancelled and/or replaced any time during the exposure period; and (iii) will be cancelled back at the end of the exposure period if unexecuted.

Regarding the allocation of exposed orders, any responses priced at the prevailing NBBO or better shall immediately trade against the order (on a first come, first served basis). If during the exposure period the Exchange receives an unrelated order (or quote) on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price or better, then the orders will trade at the prevailing NBBO price. The exposure period shall not terminate if a quantity remains on the exposed order after such trade. Responses that are not immediately executable based on the prevailing NBBO may become executable during the exposure period based on changes to the NBBO. In the event of a change to the NBBO and at the conclusion of the exposure period, the Exchange will evaluate remaining responses as well as the disseminated best bid/offer on other exchanges and execute any remaining portion of the exposed order to the fullest extent possible at the best price(s) by executing against responses and unrelated orders (pursuant to the matching algorithm in effect for the class). Following the exposure period, the Exchange will route the remaining portion of the exposed order to other exchanges, unless otherwise instructed by the User. Any portion of a routed order that returns unfilled shall trade against the Exchange’s best bid/offer unless another exchange is quoting at a better price in which case new orders shall be generated and routed to trade against such better prices. All executions on the Exchange pursuant to this paragraph shall comply with Rule 27.2 (Order Protection).

Regarding the early termination of the exposure period, in addition to the receipt of a response (or unrelated order or quote) to trade the entire exposed order at the NBBO or better, the exposure period will also terminate early: (i) If during the exposure period the NBBO updates such that the exposed order is no longer marketable against the prevailing NBBO; or (ii) if

⁷ *Id.*

⁸ See Exchange Rule 21.1(d)(6).

⁹ The term “User” means any Options Member or Sponsored Participant who is authorized to obtain access to the System pursuant to Rule 11.3 (Access). See Exchange Rule 16.1(a)(63).

¹⁰ See Exchange Rule 16.1(a)(45) (defining “Priority Customer” and “Priority Customer”) and Exchange Rule 16.1(a)(37) (defining “Market Maker”).

during the exposure of an order the Exchange is displaying an unrelated order on the same side of the market as the exposed order and such displayed order is subsequently locked or crossed by another options exchange. When the exposure period terminates early, the exposed order shall be processed in accordance with paragraph (c) of the proposed Rule (which regards allocation of exposed orders).

The purpose of the proposed change is to provide all Exchange Users with the opportunity to improve their prices and “step up” to meet the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant’s chosen venue) instead of having the order be routed to another exchange. This “step up” process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may “step up” to match the NBBO. Further, SUM and the “step up” process enable Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User on EDGX Options “steps up” to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange.

The Exchange’s proposed SUM and the “step up” process are not novel concepts. As proposed, SUM is similar to the Hybrid Agency Liaison (“CBOE HAL”) offered on the Chicago Board Options Exchange, Incorporated (“CBOE”), which provides the same manner of “step up” process and has been approved by the Commission.¹¹ One difference between CBOE HAL and the proposed SUM is that CBOE HAL operates on CBOE’s Hybrid Trading System, which combines both open outcry and electronic trading, whereas the proposed SUM would be entirely electronic (as EDGX Options is an all-electronic exchange). The proposed

SUM rule does not incorporate CBOE HAL language regarding Hybrid.¹²

Another difference is that on CBOE HAL, only Market-Makers with an appointment in the relevant option class and Trading Permit Holders acting as agent for orders resting at the top of CBOE’s book in the relevant option series opposite the order submitted to CBOE HAL may submit responses to the exposure message during the exposure period (unless CBOE determines, on a class-by-class basis, to allow all Trading Permit Holders to submit responses to the exposure message). The Exchange has determined that, on its proposed SUM, all Users may submit responses to the exposure message during the exposure period. This difference leads to various differences between the proposed rule applicable to SUM and the rule applicable to CBOE HAL. Specifically, pursuant to CBOE HAL, an order will not be exposed if the CBOE quotation contains resting orders and does not contain sufficient CBOE Market Maker quotation interest to satisfy the entire order. The Exchange did not propose this language or limitation because the proposed SUM process is not dependent only on Market Maker interest in any way, but rather, seeks to expose the order for execution to all participants on EDGX Options. Also, Interpretation and Policy .01 to CBOE Rule 6.14A (the CBOE rule regarding HAL), which prohibits the redistribution of exposure messages to market participants not eligible to respond to such messages (except in classes in which CBOE allows all Trading Permit Holders to respond to such messages) does not apply to the proposed SUM, as all Users of EDGX Options are permitted to respond to all exposure messages.¹³

The Exchange has also proposed different criteria for early termination of an exposure period than those reasons set forth in the corresponding CBOE rule regarding HAL. Although an exposure period will terminate early if an order is executed in full, the Exchange moved this provision to a separate section of the proposed rule.

¹² See CBOE Rule 6.14A. The Exchange notes, however, that C2 Options Exchange, Incorporated (“C2”), which has adopted a HAL mechanism as well, is similar to the Exchange in this respect. See C2 Rule 6.18. Specifically, like the Exchange, C2 does not have open outcry but is a fully electronic exchange. The Exchange further notes that C2’s version of HAL was adopted with certain distinctions from the CBOE’s approved HAL rule pursuant to an immediately effective rule filing. See Securities Exchange Act Release No. 68573 (January 3, 2013), 78 FR 1889 (January 9, 2013) (SR–C2–2012–043).

¹³ The Exchange notes that while different from the CBOE rule, the proposal is identical to the corresponding C2 rule, Rule 6.18. See *id.*

CBOE also terminates an exposure period in slightly different circumstances than the Exchange has proposed, including when a same side order is received by CBOE, if CBOE Market Maker interest decrements to an amount equal to the size of the exposed order and if the underlying security enters a limit up limit down state. While the Exchange does not believe early termination is necessary for SUM under any of these reasons, the Exchange has proposed to terminate an exposure period early in two other scenarios not covered by HAL, specifically when the exposed order is no longer marketable against the NBBO or if a resting order on the Exchange is locked or crossed by another options exchange. Although the early termination section of the proposed rule represents the greatest departure from the HAL rule, the Exchange does not believe that any of these differences raise new policy issues generally with respect to a step up process.

With respect to the early termination scenarios not adopted by the Exchange, the Exchange believes that the fact that a User will have the ability to cancel its order after the SUM process is initiated coupled with the fact that the Exchange will only execute an order that has been exposed via the SUM process to the extent the order is marketable against the NBBO mitigate any potential concern regarding such differences. Further, regarding the additional early termination scenarios specified by the Exchange, the Exchange believes that these are reasonable reasons to terminate the SUM process. Specifically, if an order is no longer marketable, then it cannot be executed through the SUM process so no longer benefits from being exposed. If an order resting on the Exchange is locked or crossed by another options exchange then the Exchange believes that continuing to expose the order could present difficulties with respect to the handling of the resting order and, particularly with respect to a crossing quotation published by another options exchange, that the exposed order, if routable, should be routed to such options exchange for potential price improvement.

In addition to the differences described above, the Exchange has used terminology throughout proposed Rule 21.18 that differs from terminology used in the corresponding CBOE rule regarding HAL in order to retain consistency with other Exchange rules or because the Exchange’s System does not operate the same as CBOE (*i.e.*, with respect to market turner and price

¹¹ See Securities Exchange Act Release No. 60551 (August 20, 2009), 74 FR 43196 (August 26, 2009) (SR–CBOE–2009–040) (“HAL Approval Order”).

checks).¹⁴ Further, the Exchange has made various wording and structural changes that the Exchange believes improve the general understandability of the SUM process. The Exchange also included a few additional details not included in the CBOE HAL rule, such as making clear that responses are cancelled at the end of the exposure period if unexecuted, stating that responses may become executable based on changes to the NBBO, and stating that an order will not be exposed when the NBBO is crossed. The Exchange does not believe the terminology used or different wording or structure represents any substantive difference between the proposed SUM process and HAL, but rather, that these are minor improvements to the language of the rule to highlight the exact operation of the proposed SUM process.

Despite the differences highlighted above, the proposed SUM process would otherwise operate in similar manner to the CBOE HAL, which has been approved by the Commission. The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.¹⁵ The proposed SUM's "step up" process would allow participants on EDGX Options to do just that. If an EDGX Options User wants to ensure that an order does not go through the proposed SUM process, then that User can submit an order that would not be exposed to SUM.¹⁶

In addition to Rule 21.18 as described above, the Exchange also proposes to adopt Interpretation and Policy .01 to new Rule 21.18, which will state that all determinations by the Exchange pursuant to Rule 21.18 (*i.e.*, eligible order size, order type, increment, order origin codes and classes) will be announced in a circular to Members and

maintained in specifications made publicly available via the Exchange's Web site. The Exchange also proposes to adopt Interpretation and Policy .02 to new Rule 21.18 to make clear that the Exchange will not initiate the SUM process if the NBBO is crossed.

The Exchange also proposes to add references to the proposed SUM process to paragraph (f)(6) of Rule 21.6 and paragraph (a)(1) of Rule 21.9, in both cases to provide a complete list of potential ways an order may be handled by the Exchange. As proposed, Rule 21.9(a)(1) would also make clear that the SUM process is the default order handling process for any routable order.

Finally, the Exchange proposes to adopt paragraph (b)(4) under Rule 21.15 to refer to a new data feed that would be offered by the Exchange in connection with auctions on EDGX Options, including the SUM process. Specifically, the Rule would state that that Auction Feed is an uncompressed data product that provides information regarding the current status of price and size information related to auctions conducted by the Exchange. The Exchange intends to provide data regarding the SUM process to Users via its Multicast PITCH Feed, the main depth of book product offered by the Exchange, but believes that having a separate Auction Feed for Users that wish to receive such information separately is appropriate. The Exchange notes that the proposed language for the Auction Feed is directly based on Rule 11.22(i) of Bats BZX Exchange, Inc. ("BZX"), which describes the BZX equities auction feed applicable to securities listed on BZX. In addition to referencing the Auction Feed in Rule 21.15(b), the Exchange proposes to modify current Rule 21.15(c) to make clear that information regarding Priority Customer Orders and trades will be included in the Auction Feed, just as such information is included on the Exchange's Multicast PITCH Feed today. The Exchange also notes that while SUM is not an auction process, *per se*, the Exchange believes that the options industry has often grouped step up processes with other auction processes when describing product offerings. Thus, the Exchange does not believe that including SUM information in the Auction Feed will cause any confusion. Further, the Exchange expects to propose additional (more traditional) auction processes over time and intends to include information regarding activity in such auctions in the Auction Feed. The Exchange notes that until additional auctions are proposed and implemented by EDGX Options, information regarding the SUM process

would be the only data in the Auction Feed.

2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.¹⁷ In particular, the proposal is consistent with Section 6(b)(5) of the Act¹⁸ because it is designed to simplify System functionality and to adopt the SUM process, which is designed to offer market participants greater flexibility with respect to orders entered into the EDGX Options Book, thereby promoting just and equitable principles of trade, fostering cooperation and coordination with persons engaged in facilitating transactions in securities, removing impediments to, and perfecting the mechanism of, a free and open market and a national market system.

Elimination of the Display-Price Sliding Process and Price Improving Orders

The proposed change to eliminate display-price sliding under Rule 21.1(g) (as well as references to such process elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Similarly, the proposed change to eliminate Price Improving Orders under Rule 21.1(d)(6) (as well as references to such orders elsewhere in Exchange rules) promotes just and equitable principles of trade and fosters cooperation and coordination with persons engaged in facilitating transactions in securities. Specifically, both of the proposed changes are designed to simplify functionality on EDGX Options, particularly as the Exchange begins to adopt new processes such as the SUM process, proposed herein.

Step Up Mechanism

Adopting SUM, a "step up" program, would provide eligible Users on EDGX Options with the opportunity to improve their prices to match the NBBO in order to interact with orders sent to the Exchange. This will allow the market participant sending an order to EDGX Options to increase its chances of receiving an execution at EDGX Options (the market participant's chosen venue) instead of having the order be routed to another exchange. This "step up"

¹⁴ The Exchange did not include language included in the corresponding rule for CBOE HAL related to a price check parameters, as the Exchange does not have the same price check process as CBOE. That said, all orders exposed via SUM will be subject to the same price checks as all other orders on EDGX Options, including but not limited to, collars applicable to market orders and executions only within the NBBO.

¹⁵ For example, in adopting the Order Protection Rule (Rule 611) under Regulation NMS in 2005, the Commission stated: "The Order Protection Rule generally requires that trading centers match the best quoted prices, cancel orders without an execution, or route orders to the trading centers quoting the best prices." See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005), at 37525 (S7-10-04).

¹⁶ A User will be able to opt-out of SUM by including a specific field in their orders submitted to the Exchange. As noted below, unless otherwise specified, all routable orders will be subject to SUM. Details regarding the ability to opt-out of SUM will be set forth in the Exchange's order entry specifications, which are made publicly available to all Users.

¹⁷ 15 U.S.C. 78f(b).

¹⁸ 15 U.S.C. 78f(b)(5).

process allows market participants to take into account factors beyond just disseminated prices, such as execution costs, system reliability, and quality of service, when determining the exchange to which to route an order. A market participant that prefers EDGX Options due to some combination of these other factors will know that, even if EDGX Options is not displaying a price that is the NBBO, the market participant may still receive an execution at EDGX Options because another User may “step up” to match the NBBO. Therefore, the fact that SUM allows a market participant who elects to send an order to EDGX Options to have a greater likelihood of achieving execution at this chosen venue without the risk of paying a lower price removes an impediment to and perfects the mechanism for a free and open national market system. Further, SUM and the “step up” process enable Users to add liquidity that is available to interact with orders sent to the Exchange. Indeed, when a User “steps up” to match the NBBO that is displayed on another exchange, more contracts may be executed at this NBBO price on EDGX Options than are available at that same price on the other exchange. This increased liquidity benefits all market participants on EDGX Options, thereby perfecting the mechanism for a free and open national market system and protecting investors and the public interest.

The Exchange’s proposed SUM process is similar to CBOE HAL, which provides the same manner of “step up” process. The differences between CBOE HAL and the proposed SUM process are described elsewhere in the proposal and the Exchange believes each relates either to the language used to describe each respective process or to the specific way that the Exchange’s System operates generally or specifically with respect to SUM as compared to CBOE’s implementation of HAL. The Exchange does not believe that any of these differences raise any new or significant policy concerns. Further, despite these differences, the proposed SUM process would otherwise operate in a similar manner to the CBOE HAL, which has been approved by the Commission.¹⁹ As such, the Exchange merely desires to adopt a mechanism that is similar to one that already exists on CBOE and other exchanges. Permitting the Exchange to operate on an even playing field relative to other exchanges removes impediments to and perfects the mechanism for a free and open market and a national market system.

The Commission has always been clear that honoring better prices on other markets can be accomplished by matching those better prices.²⁰ The proposed SUM’s “step up” process would allow participants on EDGX Options to do just that.

B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange does not believe the proposed rule changes regarding display price sliding and Price Improving Orders impact competition, but rather, that the changes will help to reduce the complexity of the operation of EDGX Options.

The Exchange does not believe that the proposed rule change to adopt the SUM process will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange’s proposed SUM is open to all market participants. The “step-up” feature of the proposed SUM allows for execution at the NBBO or price improvement. When such price improvement is achieved via this “stepping up” to meet (or beat) the best quoted price at another exchange, market participants are able to receive the best quoted price while still achieving execution on EDGX Options, the exchange to which they elected to send their orders. As noted above, the SUM process is similar to processes offered by at least one other options exchange that competes with the Exchange, and therefore the proposal is a pro-competitive proposal.

For all the reasons stated above, the Exchange does not believe that the proposed rule changes will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange has neither solicited nor received written comments on the proposed rule change. The Exchange has not received any written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act²¹ and Rule 19b-4(f)(6) thereunder.²²

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act²³ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)²⁴ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange states that waiver of the 30-day operative delay would allow the Exchange to immediately provide functionality on EDGX Options that is similar to functionality provided by other options exchanges, including but not limited to, CBOE and C2. The Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.²⁵

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

²³ 17 CFR 240.19b-4(f)(6).

²⁴ 17 CFR 240.19b-4(f)(6)(iii).

²⁵ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁹ See HAL Approval Order, *supra* note 11.

²⁰ See *supra*, note 14.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File No. SR-BatsEDGX-2016-29 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File No. SR-BatsEDGX-2016-29. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BatsEDGX-2016-29, and should be submitted on or before August 11, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Robert W. Errett,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-78347; File No. SR-FICC-2016-003]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change To Describe the Blackout Period Exposure Charge That May Be Imposed on GCF Repo Participants

July 15, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 12, 2016, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would amend the Government Securities Division ("GSD") Rulebook (the "GSD Rules")³ to include a margin charge increase (the "Blackout Period Exposure Charge" as further described below) that may be imposed on Netting Members that participate in the GCF Repo[®] service ("GCF Repo Participants"). The charge would be imposed at the beginning of each month for GCF Repo Participants whose portfolios experience backtesting deficiencies attributable to such Participants' use of mortgage-backed securities ("MBS") as collateral for GCF Repo Transactions. The charge is designed to mitigate FICC's exposure resulting from potential decreases in the collateral value of MBS pools that occur during the monthly Blackout Period (as defined and

discussed below). The proposed rule change would amend GSD Rule 1 (Definitions) to add certain defined terms and would amend Section 1b of GSD Rule 4 (Clearing Fund and Loss Allocations) to include the Blackout Period Exposure Charge and the manner in which FICC determines and imposes such charge. FICC is filing this proposed rule change in order to provide transparency in the GSD Rules with respect to this existing charge.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change provides transparency in the GSD Rules with respect to the Blackout Period Exposure Charge, which FICC may temporarily impose on a GCF Repo Participant as part of such GCF Repo Participant's Required Fund Deposit. FICC imposes the Blackout Period Exposure Charge where FICC determines, based on prior backtesting deficiencies of such GCF Repo Participant's Required Fund Deposit, that the GCF Repo Participant may experience a deficiency due to reductions in the notional value of the MBS used by such GCF Repo Participant to collateralize its GCF Repo trading activity that occur during the monthly Blackout Period. Because this reduction in notional value that occurs during the Blackout Period is not reflected on GCF Clearing Agent Banks' collateral reports to FICC until after the Blackout Period ends, the value of GCF Repo Participants' collateral may be overstated during this period, creating an exposure for FICC that may not be covered by such Participants' Required Fund Deposits. The Blackout Period Exposure Charge is designed to mitigate that risk to FICC.

²⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The GSD Rules are available at <http://www.dtcc.com/legal/rules-and-procedures>. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the GSD Rules.